

**HANOVER-HORTON
SCHOOL DISTRICT**

**FINANCIAL
STATEMENTS**

JUNE 30, 2007

**KARL L. DRAKE
CERTIFIED PUBLIC ACCOUNTANT**

HANOVER-HORTON SCHOOL DISTRICT

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2007

Board of Education

Kathie Michel	President
Brian Brockie	Vice President
Chris Vincent	Secretary
Leon Densmore	Treasurer
Chris Murphy	Board Member
Kirk Mercer	Board Member
Joseph Childs	Board Member

Management

Linda Brian	Superintendent
Andrienne Spencer	Business Manager
Karl L. Drake, PC	Auditor
Thrun Law Firm, P.C.	Attorney
Rosenfeld, Grover, and Frang, P.C.	Attorney

HANOVER-HORTON SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hanover-Horton School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and 29-31 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education
Hanover-Horton School District

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2007 on our consideration of Hanover-Horton School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements, and statistical data, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Hanover-Horton School District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and in our opinion, the information is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

September 24, 2007

HANOVER–HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

This section of Hanover-Horton School District's annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2007. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hanover–Horton School District financially as a whole. The *District-Wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Debt Funds, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund and Debt Funds
(Required Supplemental Information)

Other Supplemental Information

Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting The School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Reporting The School District's Fiduciary Responsibilities - The School District As Trustee

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District As A Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

TABLE 1	Governmental Activities (In Millions)	
	2007	2006
ASSETS		
Current and other assets	\$ 3.0	\$ 3.2
Capital assets - Net of accumulated depreciation	9.6	9.9
TOTAL ASSETS	12.6	13.1
LIABILITIES		
Current liabilities	1.7	1.7
Long-term liabilities	7.2	7.7
TOTAL LIABILITIES	8.9	9.4
NET ASSETS		
Invested in property and equipment - Net of related debt	1.8	1.6
Restricted	0.2	0.2
Unrestricted	1.7	1.9
TOTAL NET ASSETS	\$ 3.7	\$ 3.7

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3.7 million at June 30, 2007. Capital assets, net of related debt totaling \$1.8 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$1.7 million) was unrestricted.

The \$1.7 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2007 and 2006.

	Governmental Activities (In Millions)	
	2007	2006
REVENUE		
Program Revenue		
Charges for services	\$ 0.7	\$ 0.7
Grants and categoricals	0.7	0.5
General Revenue		
Property taxes	1.7	1.7
State foundation allowance	8.6	8.7
Other	0.2	0.2
TOTAL REVENUE	\$ 11.9	\$ 11.8

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

FUNCTION/PROGRAM EXPENSES

	(In Millions)	
	2007	2006
Instruction	\$ 6.6	\$ 6.5
Support Services	3.7	3.6
Food Services	0.5	0.5
Athletics	0.3	0.3
Interest on Long-Term Debt	0.4	0.4
Depreciation (unallocated)	0.5	0.5
TOTAL FUNCTION/PROGRAM EXPENSES	12.0	11.8
INCREASE <DECREASE> IN NET ASSETS	\$ -0.1	\$ 0.0

The School District experienced a decrease in net assets of approximately \$50 thousand. Key reasons for the change in net assets were limited state aid revenue increases, rising costs for fuel and energy, and surcharges for transportation of supplies and materials. The decrease in net assets differs from the change in fund balance and a reconciliation appears on page 15.

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1.9 million, which is a decrease of \$0.2 million from last year. The primary reason for the decrease is increasing fringe benefit expenditures. The General Fund, the principal operating fund, saw fund balance decrease \$158,855 to \$1,609,286, which is less than the budgeted decrease of \$379,069.

- Special Revenue Funds remained stable from the prior year, showing a net increase of approximately \$10,257.
- Combined, the Debt Service Funds showed a fund balance decrease of \$10,020. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Fund Balances in the Debt Service Funds are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

General Fund Budgetary Highlights

To avoid an additional drop in the fund balance, the School District has made significant cuts in staffing levels. Increases in fringe benefit costs, as well as rising costs in energy and transportation continue to negatively impact the School District's budget.

HANOVER-HORTON SCHOOL DISTRICT

Management's Discussion and Analysis

Capital Asset And Debt Administration

Capital Asset

At June 30, 2007, the School District had \$9.5 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$331,335 or 3 percent, from last year.

	<u>2007</u>	<u>2006</u>
Land and Improvements	\$ 2,019,727	\$ 2,019,727
Buildings and Improvements	11,875,334	11,799,618
Buses and Other Vehicles	804,892	794,559
Furniture and Equipment	<u>766,170</u>	<u>772,670</u>
Total Capital Assets	<u>15,466,123</u>	<u>15,386,574</u>
Less Accumulated Depreciation	<u>5,906,030</u>	<u>5,495,146</u>
Net Capital Assets	<u>\$ 9,560,093</u>	<u>\$ 9,891,428</u>

The additions for this year included completing the new library addition and a new bus. New debt of \$30,000 was issued for these additions.

Debt

At the end of this year, the School District had \$7.7 million in bonds and loans outstanding versus \$8.2 million in the previous year - a decrease of 6 percent. Debt consisted of the following:

	<u>2007</u>	<u>2006</u>
General Obligation Bonds	\$ 7,678,211	\$ 8,193,211
Bus Loans	<u>40,869</u>	<u>31,731</u>
	<u>\$ 7,719,080</u>	<u>\$ 8,224,942</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$7.7 million is significantly below the statutorily imposed limit.

Economic Factors And Next Year's Budgets And Rates

The elected officials and administration considered many factors when setting the School District's 2007-08 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count (using the two separate count days) times the per student foundation allocation. The blended count for the 2007-08 school year is 25 percent of the count from February 2007, and 75 percent of the count from September 2007. The 2007-08 fiscal year budget was based on an estimate of students that will be enrolled in September 2007. Approximately 75 percent to 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the end of the 2007-2008 school year, we anticipate that the fall student count will decrease by an additional 7 students from the spring 2007 student count. This is a reduction of 21 students from the fall of 2006. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget as actual district resources are not sufficient to fund original appropriations.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The State periodically holds a revenue consensus conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

Contacting The School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hanover-Horton School District with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 237 Farview Street, Horton, Michigan 49246.

HANOVER-HORTON SCHOOL DISTRICT

District-Wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities	
	2007	2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,437,989	\$ 1,560,346
Due From Other Governmental Units	1,537,652	1,603,201
Accounts Receivable	9,252	10,146
Inventories	4,855	3,471
Prepaid Expenditures	352	6,496
Total Current Assets	2,990,100	3,183,660
Non-Current Assets		
Capital Assets	15,466,123	15,386,574
Less: Accumulated Depreciation	-5,906,030	-5,495,146
Total Non-Current Assets	9,560,093	9,891,428
TOTAL ASSETS	\$ 12,550,193	\$ 13,075,088
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 4,946	\$ 6,919
Accrued Salaries and Expenses	1,067,865	1,067,635
Deferred Revenue	32,919	---
Accrued Interest	55,618	56,359
Bonds and Loans Payable, Due within One Year	565,564	541,207
Total Current Liabilities	1,726,912	1,672,120
Non-Current Liabilities		
Bonds Payable	7,138,211	7,672,866
Loans Payable	15,305	10,869
Total Non-Current Liabilities	7,153,516	7,683,735
TOTAL LIABILITIES	8,880,428	9,355,855
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,785,395	1,610,127
Restricted for Debt Service	129,087	139,107
Restricted for Capital Projects	41,351	107,469
Unrestricted	1,713,932	1,862,530
TOTAL NET ASSETS	3,669,765	3,719,233
TOTAL LIABILITIES AND NET ASSETS	\$ 12,550,193	\$ 13,075,088

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

		Program Revenues		Governmental Activities	
		Charges For Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets	
	Expenses			2007	2006
FUNCTIONS/PROGRAMS					
Governmental Activities					
Instruction	\$ 6,579,987	\$ 226,924	\$ 415,618	\$ -5,937,445	\$ -6,032,691
Support Services	3,697,172	81,690	70,270	-3,545,212	-3,339,547
Food Services	464,959	280,228	190,070	5,339	13,531
Athletics	302,665	67,005	---	-235,660	-247,696
Community Services	35,430	29,389	---	-6,041	2,967
Interest on Long-Term Debt	361,577	---	---	-361,577	-346,033
Depreciation (Unallocated)	467,046	---	---	-467,046	-498,926
Total Governmental Activities	\$ 11,908,836	\$ 685,236	\$ 675,958	-10,547,642	-10,448,395
General Revenue					
Taxes					
Property Taxes, Levied for General Operations				891,135	806,281
Property Taxes, Levied for Debt Service				835,858	891,656
State of Michigan Aid, Unrestricted				8,647,725	8,661,001
Interest Earnings				76,542	79,410
Other				46,914	77,403
Total General Revenue				10,498,174	10,515,751
CHANGE IN NET ASSETS				-49,468	67,356
NET ASSETS - BEGINNING OF YEAR				3,719,233	3,651,877
NET ASSETS - END OF YEAR				<u>\$ 3,669,765</u>	<u>\$ 3,719,233</u>

See Accompanying Notes to Financial Statements.

HANOVER-HORTON SCHOOL DISTRICT

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	General	Debt Service	Other Non-Major Governmental Funds	2007 Total Governmental Funds	2006 Total Governmental Funds
ASSETS					
Cash and Investments	\$ 1,132,634	\$ 124,332	\$ 181,023	\$ 1,437,989	\$ 1,560,346
Accounts Receivable	4,497	4,755	---	9,252	10,146
Due from Other Governmental Units	1,537,652	---	---	1,537,652	1,603,201
Due from Other Funds	35,905	---	---	35,905	47,365
Inventories	---	---	4,855	4,855	3,471
Prepaid Expenditures	352	---	---	352	6,496
TOTAL ASSETS	\$ 2,711,040	\$ 129,087	\$ 185,878	\$ 3,026,005	\$ 3,231,025
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 970	\$ ---	\$ 3,976	\$ 4,946	\$ 6,919
Accrued Salaries and Withholdings	1,067,865	---	---	1,067,865	1,067,635
Due to Other Funds	---	---	35,905	35,905	47,365
Deferred Revenue	32,919	---	---	32,919	---
TOTAL LIABILITIES	1,101,754	---	39,881	1,141,635	1,121,919
FUND BALANCES					
Reserved for Inventories	---	---	4,855	4,855	3,471
Reserved for Debt Service	---	129,087	---	129,087	139,107
Reserved for Capital Projects	---	---	41,351	41,351	107,469
Unreserved and Undesignated	1,609,286	---	---	1,609,286	1,768,141
Unreserved and Undesignated, Food Services	---	---	99,791	99,791	90,918
Unreserved and Undesignated, Athletics	---	---	---	---	---
TOTAL FUND BALANCES	1,609,286	129,087	145,997	1,884,370	2,109,106
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,711,040	\$ 129,087	\$ 185,878	\$ 3,026,005	\$ 3,231,025
TOTAL GOVERNMENTAL FUND BALANCES					\$ 1,884,370
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:					
Cost of the Capital Assets is	\$ 15,466,123				
Accumulated Depreciation is	<u>-5,906,030</u>				
	<u>9,560,093</u>				
Long-Term Liabilities are not due and payable in the current period and are not reported in the fund					
Bonds Payable	-7,678,211				
Loans Payable	<u>-40,869</u>				
Accrued interest is not included as a liability in governmental funds	<u>-55,618</u>				
NET ASSETS OF GOVERNMENTAL ACTIVITIES					\$ 3,669,765

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	General	Debt Service	Other Non-Major Governmental Funds	2007 Totals	2006 Totals
REVENUE					
Local Sources	\$ 1,310,896	\$ 863,040	\$ 381,208	\$ 2,555,144	\$ 2,587,982
State Sources	8,993,785	---	37,169	9,030,954	8,855,528
Federal Sources	139,828	---	133,442	273,270	345,429
Miscellaneous	---	---	---	---	---
TOTAL REVENUE	10,444,509	863,040	551,819	11,859,368	11,788,939
EXPENDITURES					
Current					
Instruction	6,579,987	---	---	6,579,987	6,496,357
Supporting Services	3,700,172	---	763,496	4,463,668	4,311,868
Community Services	35,430	---	---	35,430	33,461
Debt Service	20,862	873,060	---	893,922	1,014,978
Capital Outlay	61,253	---	79,844	141,097	967,352
TOTAL EXPENDITURES	10,397,704	873,060	843,340	12,114,104	12,824,016
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	46,805	-10,020	-291,521	-254,736	-1,035,077
OTHER FINANCING SOURCES <USES>					
Loan Proceeds	30,000	---	---	30,000	---
Operating Transfers In	---	---	235,660	235,660	247,696
Operating Transfers Out	-235,660	---	---	-235,660	-247,696
TOTAL OTHER FINANCING SOURCES <USES>	-205,660	---	235,660	30,000	---
NET CHANGE IN FUND BALANCES	-158,855	-10,020	-55,861	-224,736	-1,035,077
FUND BALANCES - BEGINNING OF YEAR	1,768,141	139,107	201,858	2,109,106	3,144,183
FUND BALANCES - END OF YEAR	\$ 1,609,286	\$ 129,087	\$ 145,997	\$ 1,884,370	\$ 2,109,106

See Accompanying Notes to Financial Statements.

HANOVER-HORTON SCHOOL DISTRICT

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ -224,736
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Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-467,046	
Capital Outlay	<u>135,711</u>	
		-331,335

- Loan proceeds recorded as other financing sources in the governmental funds, but not in the statement of activities (where it increases long-term debt) -30,000

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 741

- Repayments of bond and loan principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 535,862

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ -49,468</u></u>
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STATEMENT OF FIDUCIARY NET ASSETS**JUNE 30, 2007**

ASSETS	2007	2006
Cash and Cash Equivalents	\$ 238,554	\$ 244,562
Accounts Receivable	---	---
TOTAL ASSETS	\$ 238,554	\$ 244,562
LIABILITIES		
Due to Others	\$ ---	\$ ---
Due to Student Groups	238,554	244,562
TOTAL LIABILITIES	\$ 238,554	\$ 244,562

See Accompanying Notes to Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Hanover-Horton School District is located in Jackson County, Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided

by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUNDS (CONTINUED)

Debt Retirement Funds - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Retirement Funds maintained by the School District are to retire outstanding 1999, 2002 and Durant bonded indebtedness.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The school maintains one capital project fund.

FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. BUDGETS AND BUDGETARY ACCOUNTING: The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES: Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Jackson and Hillsdale Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES: Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS: The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

G. FINANCIAL INSTRUMENTS: The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. FUND EQUITY: Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

J. CAPITAL ASSETS: Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

K. LONG-TERM OBLIGATIONS: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

HANOVER-HORTON SCHOOL DISTRICT

Notes To Financial Statements

L. TOTAL COLUMNS ON COMBINED STATEMENTS: Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

M. STATE CATEGORICAL REVENUE: The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

N. RISK MANAGEMENT: The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

O. ESTIMATES: The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains its cash deposits in two financial institutions. At June 30, 2007, the book value of the School District's deposits was \$-62,890 and the bank balance was \$55,282. Of the bank balance, \$55,282 was covered by federal depository insurance and \$0 was uninsured and uncollateralized.

Statutes authorize the School District to invest in obligations of the U.S. Treasury and U.S. agencies and instrumentalities, U.S. government or federal agency obligation repurchase agreements, obligations of the State, Certificates of Deposit, Commercial paper rated prime, Bankers' acceptances, and Mutual funds and Investment pools composed entirely of instruments that are legal for direct investment by a School District.

The School District invests surplus funds with the Comerica Bank School Cash Investment Fund in investment trust accounts in accordance with Sections 622, 1221, and 1223 of the School Code.

Investments are stated at cost, which approximates market value. The Comerica Bank School Cash Investment Fund is categorized as a mutual fund. Each School District owns a prorata share of each investment or deposit, which is held in the name of the fund.

The amount of investments as of June 30, 2007, which are not required to be categorized as to level of risk are as follows:

	<u>Carrying Amount</u>	<u>Book Amount</u>
General Fund	\$ 1,203,919	\$ 1,203,919
Cafeteria Fund	124,416	124,416
Debt Retirement Fund	123,733	123,733
Capital Projects Fund	41,221	41,221
Trust and Agency Fund	246,144	246,144
	<u>\$ 1,739,433</u>	<u>\$ 1,739,433</u>

HANOVER-HORTON SCHOOL DISTRICT

Notes To Financial Statements

B. TYPES OF DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the District's name.
2. Uninsured or unregistered, with securities held by the counter party's trust department or agent in the District's name.
3. Uninsured or unregistered, with securities held by the counter party, or by its trust department or agent but not in the District's name.

NOTE 3 - INVENTORY

There is \$4,855 of inventory in the Special Revenue Fund - Food Service.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2007, is comprised of the following:

General Fund

State of Michigan - State Aid	\$ 1,519,140
- Title 1	6,409
- Improving Teacher Quality	11,823
- Title 5	<u>280</u>
Total Due From Other Governmental Units	<u>\$ 1,537,652</u>

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2007, consisted of the following:

Due To:

General Fund	\$ 25,266
General Fund	<u>10,639</u>
	<u>\$ 35,905</u>

Due From:

Food Service	\$ 25,266
Athletic	<u>10,639</u>
	<u>\$ 35,905</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Assets not being depreciated:				
Land	\$ 1,150	\$ ---	\$ ---	\$ 1,150
Capital assets being depreciated:				
Land improvement	2,018,577	---	---	2,018,577
Building and building improvements	11,799,618	75,716	---	11,875,334
Buses and other vehicles	794,559	59,995	49,662	804,892
Furniture and equipment	772,670	---	6,500	766,170
Subtotal	15,385,424	135,711	56,162	15,464,973
Accumulated depreciation:				
Land Improvements	161,216	40,372	---	201,588
Building and building improvements	4,266,828	280,675	---	4,547,503
Buses and other vehicles	523,857	75,272	49,662	549,467
Furniture and equipment	543,245	70,727	6,500	607,472
Subtotal	5,495,146	467,046	56,162	5,906,030
Net capital assets being depreciated	9,890,278	-331,335	---	9,558,943
Net capital assets	\$ 9,891,428	\$ -331,335	\$ ---	\$ 9,560,093

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2007, of \$697,873 represents the unpaid portion of teacher contracts for the 2006-07 school year. On these salaries there are also fringe benefits payable at year-end totaling \$369,992.

NOTE 8 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2007, long-term debt changed as follows:

HANOVER-HORTON SCHOOL DISTRICT

Notes To Financial Statements

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Bond Issue	Balance 6/30/06	Additional Debt	2006-07 Payments	Balance 6/30/07
1999 Debt	\$ 6,345,000	\$ ---	\$ 465,000	\$ 5,880,000
2002 Debt	1,805,000	---	50,000	1,755,000
Durant Debt	43,211	---	---	43,211
Comerica Bus Loan	10,411	---	10,411	---
Comerica Bus Loan	21,320	---	10,451	10,869
County National Bus Loan	---	30,000	---	30,000
	<u>\$ 8,224,942</u>	<u>\$ 30,000</u>	<u>\$ 535,862</u>	<u>\$ 7,719,080</u>

Amounts needed over the next five years for debt principal payments are as follows:

	Bus Loans	1999 Refunding Debt	2002 Debt	Durant Debt	Total
2007-08	\$ 25,564	\$ 465,000	\$ 75,000	\$ ---	\$ 565,564
2008-09	15,305	460,000	125,000	5,867	606,172
2009-10	---	455,000	155,000	6,147	616,147
2010-11	---	450,000	175,000	17,384	642,384
2011-12	---	445,000	175,000	6,746	626,746
	<u>40,869</u>	<u>2,275,000</u>	<u>705,000</u>	<u>36,144</u>	<u>3,057,013</u>
2012 - Maturity	---	3,605,000	1,050,000	7,067	4,662,067
	<u>\$ 40,869</u>	<u>\$ 5,880,000</u>	<u>\$ 1,755,000</u>	<u>\$ 43,211</u>	<u>\$ 7,719,080</u>

NOTE 9 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), which is a multiple-employer public employee retirement system. MPERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2007, the rate was 17.74%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990 or later contribute at the following graduated permanently fixed rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non-duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2007, the School District contributed \$1,030,275 to the Retirement System, which is 16.36% of current fiscal year covered compensation of \$6,297,300. The rate for the current contract year is 17.74%, which the School District paid on all covered compensation. Employees contributed an additional \$199,281 or 3.42% of eligible wages of \$5,834,116. Total wages of the district totaled \$6,353,497.80.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2005, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$48.2 billion. The total pension benefit obligation has increased by \$1.9 billion from September 30, 2004 to September 30, 2005.

The System's net assets available for benefits on that date (valued at market) were \$38.2 billion leaving an unfunded actuarial accrued liability of \$10.0 billion. Ten-year historical trend information is presented in the System's September 30, 2006, comprehensive annual financial report.

NOTE 10 - BUDGETARY ACCOUNTING

During the year ended June 30, 2007, the School incurred no expenditures that were in excess of the amounts appropriated.

NOTE 11 - FUND BALANCE

Components of Fund Balance at June 30, 2007, are as follows:

1. \$4,855 of fund balance in the Special Revenue - Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
2. The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2007, Unreserved General Fund Balance of \$1,609,286 compares to June 30, 2006, Unreserved General Fund Balance of \$1,768,141.

NOTE 12 - COMPENSATED ABSENCES

The School's policy is not to compensate employees for vacation time not used during the school year. No provision is made in these financial statements for absences. Accumulated sick pay policies are as follows:

Teachers

Credited with 11 sick leave days per year; maximum accumulation of 130 days allowed; amounts over 130 days not used are paid at a rate of \$55 per day. A retirement leave benefit of \$55 per day (maximum \$750) is paid to teachers, employed by the District for ten years or more, retiring from the District.

Support Personnel

Credited with one day per month for months worked; maximum accumulation of 120 days allowed; amounts over 120 days not used are paid at a rate of 50% of the employee's daily rate. A retirement leave benefit of 50% of the daily rate (maximum \$500) is paid upon retirement from the District.

NOTE 13 - SINKING FUND

The School has established a sinking fund. Taxpayers will fund the Sinking Fund with 1 mill of property taxes for the next 5 years. This money will be used for facility repairs and improvements. Collections of these taxes will begin in the summer of 2007.

NOTE 14 - DEFERRED REVENUE

The School has received revenue designated for specific programs that was not spent at June 30, 2007. The following are the programs and the amount of revenue deferred.

<u>Program</u>	<u>Amount</u>
At Risk	\$ 15,134
Medicaid	<u>17,785</u>
	<u>\$ 32,919</u>

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 1,317,388	\$ 1,317,035	\$ 1,310,896	\$ -6,139
State Sources	8,646,381	9,010,291	8,993,785	-16,506
Federal Sources	227,515	167,519	139,828	-27,691
Other Sources	30,000	30,000	30,000	---
TOTAL REVENUE	10,221,284	10,524,845	10,474,509	-50,336
EXPENDITURES				
Current				
Instruction				
Basic Programs	5,694,638	6,065,988	6,000,118	65,870
Added Needs	651,890	603,847	579,869	23,978
Supporting Services				
Pupil	508,449	479,869	450,267	29,602
Instructional Staff	167,978	167,181	158,995	8,186
Administration	1,352,845	1,260,831	1,236,265	24,566
Business Services	1,822,431	1,909,676	1,854,645	55,031
Community Services	39,847	37,761	35,430	2,331
Capital Outlay	70,000	61,254	61,253	1
Debt Service	25,210	20,862	20,862	---
Other Uses - Operating Transfers	302,001	296,645	235,660	60,985
TOTAL EXPENDITURES	10,635,289	10,903,914	10,633,364	270,550
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-414,005	-379,069	-158,855	220,214
BUDGETARY FUND BALANCE - JULY 1, 2006	1,768,141	1,768,141	1,768,141	---
BUDGETARY FUND BALANCE - JUNE 30, 2007	\$ 1,354,136	\$ 1,389,072	\$ 1,609,286	\$ 220,214

HANOVER-HORTON SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - DEBT FUNDS

YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 848,445	\$ 855,484	\$ 863,040	\$ 7,556
State Sources	---	---	---	---
Federal Sources	---	---	---	---
Other Sources	---	---	---	---
TOTAL REVENUE	848,445	855,484	863,040	7,556
EXPENDITURES				
Current				
Instruction				
Basic Programs	---	---	---	---
Added Needs	---	---	---	---
Supporting Services				
Pupil	---	---	---	---
Instructional Staff	---	---	---	---
Administration	---	---	---	---
Business Services	---	---	---	---
Community Services	---	---	---	---
Capital Outlay	---	---	---	---
Debt Service	874,639	874,639	873,060	1,579
Other Uses - Operating Transfers	---	---	---	---
TOTAL EXPENDITURES	874,639	874,639	873,060	1,579
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-26,194	-19,155	-10,020	9,135
BUDGETARY FUND BALANCE - JULY 1, 2006	139,107	139,107	139,107	---
BUDGETARY FUND BALANCE - JUNE 30, 2007	\$ 112,913	\$ 119,952	\$ 129,087	\$ 9,135

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2007

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
LOCAL SOURCES				
Current Property Tax Levy	\$ 894,286	\$ 891,135	\$ -3,151	\$ 806,281
Interest and Penalties - Delinquent Taxes	6,773	7,458	685	5,537
Tuition	1,226	1,226	---	3,125
Sale of School Property	4,200	4,200	---	---
Refunds	20,903	20,698	-205	13,228
Interest Earned	39,431	46,218	6,787	42,401
Rental of School Facilities	9,405	9,405	---	8,500
Transportation	16,230	17,708	1,478	15,204
Kids Club Fees	30,250	29,389	-861	36,428
Career Prep	23,000	23,000	---	23,000
Literacy	---	---	---	39,142
Other	3,184	3,184	---	2,626
Data Processing Support	20,000	31,577	11,577	29,617
Special Education	248,147	225,698	-22,449	219,248
TOTAL REVENUE FROM LOCAL SOURCES	1,317,035	1,310,896	-6,139	1,244,337
STATE SOURCES				
Non Plaintiff Durant Settlement	10,543	10,543	---	10,543
State Aid	8,649,098	8,647,725	-1,373	8,661,001
Middle School Math	17,665	17,666	1	---
Special Education	219,788	219,788	---	22,449
At Risk	113,197	98,063	-15,134	92,586
TOTAL REVENUE FROM STATE SOURCES	9,010,291	8,993,785	-16,506	8,786,579
FEDERAL SOURCES				
Title II - D	1,338	1,168	-170	1,952
Title I	97,792	80,101	-17,691	126,258
Title II - A	68,005	57,388	-10,617	71,211
Drug Free	---	786	786	---
Title V	384	385	1	1,326
Homeland Security	---	---	---	3,957
SPSR	---	---	---	1,116
TOTAL REVENUE FROM FEDERAL SOURCES	167,519	139,828	-27,691	205,820
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 10,494,845	\$ 10,444,509	\$ -50,336	\$ 10,236,736

HANOVER-HORTON SCHOOL DISTRICT

General Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2007

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Instruction				
BASIC PROGRAMS				
Elementary School	\$ 2,236,453	\$ 2,218,672	\$ 17,781	\$ 1,120,434
Middle School	1,527,704	1,520,333	7,371	1,549,881
High School	2,168,134	2,128,274	39,860	2,094,781
Summer School	133,697	132,839	858	74,789
Other	---	---	---	---
TOTAL BASIC PROGRAMS	6,065,988	6,000,118	65,870	5,839,885
ADDED NEEDS				
Special Education	504,820	499,768	5,052	530,214
Compensatory Education	99,027	80,101	18,926	126,258
Other	---	---	---	---
TOTAL ADDED NEEDS	603,847	579,869	23,978	656,472
Total Instruction	6,669,835	6,579,987	89,848	6,496,357
Supportive Services				
PUPIL				
Guidance	217,670	215,885	1,785	201,653
Extra Duties/Aides	191,808	175,272	16,536	191,887
Staff Development	70,391	59,110	11,281	74,489
TOTAL PUPIL	479,869	450,267	29,602	468,029
INSTRUCTIONAL STAFF				
Library	167,181	158,995	8,186	186,815
Audio Visual	---	---	---	---
TOTAL INSTRUCTIONAL STAFF	167,181	158,995	8,186	186,815
ADMINISTRATION				
Board of Education	61,834	55,143	6,691	120,210
Central Administration	418,698	408,272	10,426	397,356
School Administration	780,299	772,850	7,449	750,421
TOTAL ADMINISTRATION	\$ 1,260,831	\$ 1,236,265	\$ 24,566	\$ 1,267,987

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
EXPENDITURES				
Supportive Services - Continued				
BUSINESS SERVICES				
Operation and Maintenance	\$ 1,195,720	\$ 1,174,175	\$ 21,545	\$ 1,032,923
Pupil Transportation	597,446	574,834	22,612	502,956
Technology	35,740	35,954	-214	74,482
Other	80,770	69,682	11,088	15,048
TOTAL BUSINESS SERVICES	1,909,676	1,854,645	55,031	1,625,409
Total Supportive Services	3,817,557	3,700,172	117,385	3,548,240
Community Services				
Kids Club	35,623	34,147	1,476	33,461
Other	2,138	1,283	855	---
Total Community Services	37,761	35,430	2,331	33,461
Debt Service	20,862	20,862	---	85,684
Capital Outlay	61,254	61,253	1	82,810
TOTAL EXPENDITURES	\$ 10,607,269	\$ 10,397,704	\$ 209,565	\$ 10,246,552
EXCESS REVENUE OVER EXPENDITURES	-112,424	46,805	159,229	-9,816
OTHER FINANCING SOURCES <USES>				
Loan Proceeds	30,000	30,000	---	---
Operating Transfers In	---	---	---	---
Operating Transfers Out	-296,645	-235,660	60,985	-247,696
TOTAL OTHER FINANCING SOURCES <USES>	-266,645	-205,660	60,985	-247,696
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -379,069	-158,855	\$ 220,214	\$ -257,512
FUND BALANCE - JULY 1, 2006		1,768,141		
FUND BALANCE - JUNE 30, 2007		\$ 1,609,286		

HANOVER-HORTON SCHOOL DISTRICT

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2007

	Food Service Fund	Athletic Fund	Totals
ASSETS			
Cash and Investments	\$ 129,033	\$ 10,639	\$ 139,672
Due From Other Governmental Units	---	---	---
Due From Other Funds	---	---	---
Prepaid Expenses	---	---	---
Inventory	4,855	---	4,855
TOTAL ASSETS	\$ 133,888	\$ 10,639	\$ 139,672
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to Other Funds	\$ 25,266	\$ 10,639	\$ 35,905
Accounts Payable	3,976	---	3,976
Accrued Salaries	---	---	---
Accrued Expenses	---	---	---
TOTAL LIABILITIES	29,242	10,639	39,881
FUND EQUITY			
Fund Balance - Reserved for Inventory	4,855	---	4,855
Fund Balance - Unreserved	99,791	---	99,291
TOTAL FUND EQUITY	104,646	---	104,646
TOTAL LIABILITIES AND FUND EQUITY	\$ 133,888	\$ 10,639	\$ 144,527

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2007

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
<u>Food Services</u>			
Goods Sold	\$ 5,000	\$ 6,062	\$ 1,062
Student Meals	200,000	196,260	-3,740
Adult Meals	13,000	13,686	686
Ala Carte Meals	45,000	47,629	2,629
Breakfast	13,000	13,796	796
Vending Machine Sales	2,500	2,795	295
State Aid	20,856	37,169	16,313
Federal Aid	116,000	133,442	17,442
Federal USDA Commodities in Kind	10,000	19,459	9,459
Other Income	100	---	-100
Interest Income	4,800	4,918	118
<u>Athletic Activities</u>			
Admission to Games	---	---	---
TOTAL REVENUE	430,256	475,216	44,960
EXPENDITURES			
Salaries	142,587	143,299	-712
Fringe Benefits	105,155	105,030	125
Dues and Fees	1,460	1,346	114
Purchased Services	3,972	2,451	1,521
Food and Supplies	212,705	205,561	7,144
Travel and Conferences	550	117	433
Miscellaneous	2,200	1,518	682
Repairs	3,500	1,509	1,991
Capital Outlay	4,500	4,128	372
TOTAL EXPENDITURES	\$ 476,629	\$ 464,959	\$ 11,670

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ ---	\$ ---	\$ ---	\$ 5,000	\$ 6,062	\$ 1,062
---	---	---	200,000	196,260	-3,740
---	---	---	13,000	13,686	686
---	---	---	45,000	47,629	2,629
---	---	---	13,000	13,796	796
---	---	---	2,500	2,795	295
---	---	---	20,856	37,169	16,313
---	---	---	116,000	133,442	17,442
---	---	---	10,000	19,459	9,459
---	---	---	100	---	-100
---	---	---	4,800	4,918	118
66,876	67,005	129	66,876	67,005	129
66,876	67,005	129	497,132	542,221	45,089
178,856	175,495	3,361	321,443	318,794	2,649
59,432	57,851	1,581	164,587	162,881	1,706
10,450	8,900	1,550	11,910	10,246	1,664
23,280	21,990	1,290	27,252	24,441	2,811
22,195	18,795	3,400	234,900	224,356	10,544
1,408	1,263	145	1,958	1,380	578
21,227	18,371	2,856	23,427	19,889	3,538
300	---	300	3,800	1,509	2,291
---	---	---	4,500	4,128	372
\$ 317,148	\$ 302,665	\$ 14,483	\$ 793,777	\$ 767,624	\$ 26,153

HANOVER-HORTON SCHOOL DISTRICT

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2007

	Food Service		
	Budget	Actual	Favorable <Unfavorable>
EXCESS REVENUE OVER <UNDER> EXPENDITURES	\$ -46,373	\$ 10,257	\$ 56,630
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	46,373	---	-46,373
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	46,373	---	-46,373
EXCESS REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ ---</u>	10,257	<u>\$ 10,257</u>
FUND BALANCE - BEGINNING OF YEAR		<u>94,389</u>	
FUND BALANCE - END OF YEAR		<u>\$ 104,646</u>	

Athletic Activities			Totals (Memo Only)		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ -250,272	\$ -235,660	\$ 14,612	\$ -296,645	\$ -225,403	\$ 71,242
250,272	235,660	-14,612	296,645	235,660	-60,985
---	---	---	---	---	---
250,272	235,660	-14,612	296,645	235,660	-60,985
<u>\$ ---</u>	<u>---</u>	<u>\$ ---</u>	<u>\$ ---</u>	10,257	<u>\$ 10,257</u>
	<u>---</u>			<u>94,389</u>	
	<u>\$ ---</u>			<u>\$ 104,646</u>	

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2007

	Debt V	Debt VI	Durant	Totals
ASSETS				
Cash and Investments	\$ 80,879	\$ 43,453	\$ ---	\$ 124,332
Due from other Funds	---	---	---	---
Accounts Receivable	4,037	718	---	4,755
TOTAL ASSETS	\$ 84,916	\$ 44,171	\$ ---	\$ 129,087
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ ---	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---	---
TOTAL LIABILITIES	---	---	---	---
FUND EQUITY				
Fund Balance	84,916	44,171	---	129,087
TOTAL LIABILITIES AND FUND EQUITY	\$ 84,916	\$ 44,171	\$ ---	\$ 129,087

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2007

	Debt V		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 690,992	\$ 696,548	\$ 5,556
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	3,219	3,464	245
Earned Interest	18,886	18,993	107
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	713,097	719,005	5,908
EXPENDITURES			
Principal on Bonds	465,000	465,000	---
Interest on Bonds	281,283	281,283	---
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	1,500	619	881
TOTAL EXPENDITURES	747,783	746,902	881
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-34,686	-27,897	6,789
OTHER FINANCING SOURCES			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -34,686	-27,897	\$ 6,789
FUND BALANCE - BEGINNING OF YEAR		112,813	
FUND BALANCE - END OF YEAR		\$ 84,916	

Debt VI			Durant		
Budget	Actual	Favorable <Unfavorable>	Budget	Actual	Favorable <Unfavorable>
\$ 139,268	\$ 139,310	\$ 42	\$ ---	\$ ---	\$ ---
---	---	---	---	---	---
619	673	54	---	---	---
2,500	4,052	1,552	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
142,387	144,035	1,648	---	---	---
50,000	50,000	---	---	---	---
75,856	75,855	1	---	---	---
---	---	---	---	---	---
1,000	303	697	---	---	---
126,856	126,158	698	---	---	---
15,531	17,877	2,346	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
---	---	---	---	---	---
<u>\$ 15,531</u>	17,877	<u>\$ 2,346</u>	<u>\$ ---</u>	---	<u>\$ ---</u>
	26,294			---	
<u>\$ 44,171</u>			<u>\$ ---</u>		

HANOVER-HORTON SCHOOL DISTRICT

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2007

	Total		
	Budget	Actual	Favorable <Unfavorable>
REVENUE			
Current Taxes	\$ 830,260	\$ 835,858	\$ 5,598
Delinquent Taxes	---	---	---
Interest and Penalties on Delinquent Property Taxes	3,838	4,137	299
Earned Interest	21,386	23,045	1,659
State Aid Revenue	---	---	---
Miscellaneous	---	---	---
TOTAL REVENUE	855,484	863,040	7,556
EXPENDITURES			
Principal on Bonds	515,000	515,000	---
Interest on Bonds	357,139	357,138	1
Interest on School Bond Loan Fund	---	---	---
Agent Fees and Other	2,500	922	1,578
TOTAL EXPENDITURES	874,639	873,060	1,579
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-19,155	-10,020	9,135
OTHER FINANCING SOURCES <USES>			
Loan Proceeds	---	---	---
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	\$ -19,155	-10,020	\$ 9,135
FUND BALANCE - BEGINNING OF YEAR		139,107	
FUND BALANCE - END OF YEAR		\$ 129,087	

CAPITAL PROJECT FUND

HANOVER-HORTON SCHOOL DISTRICT

Capital Project Fund

COMPARATIVE BALANCE SHEET

JUNE 30, 2007 and 2006

	2007	2006
ASSETS		
Cash and Investments	\$ 41,351	\$ 107,469
Accounts Receivable	---	---
Due from Other Funds	---	---
TOTAL ASSETS	\$ 41,351	\$ 107,469
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ ---	\$ ---
Due to Other Funds	---	---
TOTAL LIABILITIES	---	---
FUND EQUITY		
Fund Balance	41,351	107,469
TOTAL LIABILITIES AND FUND EQUITY	\$ 41,351	\$ 107,469

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2007

	Budget	Actual	Favorable <Unfavorable>	Prior Year Actual
REVENUE				
Current Taxes	\$ ---	\$ ---	\$ ---	\$ ---
Delinquent Taxes	---	---	---	---
Grants	5,927	7,237	1,310	55,000
Earned Interest	2,360	2,361	1	15,354
Miscellaneous	---	---	---	---
TOTAL REVENUE	8,287	9,598	1,311	70,354
EXPENDITURES				
Capital Outlay	108,773	75,716	33,057	884,542
TOTAL EXPENDITURES	108,773	75,716	33,057	884,542
EXCESS REVENUE OVER <UNDER> EXPENDITURES	-100,486	-66,118	34,368	-814,188
OTHER FINANCING SOURCES				
OISD Contribution	---	---	---	---
Operating Transfers In	---	---	---	---
Operating Transfers Out	---	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---	---
EXCESS REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	<u>\$ -100,486</u>	-66,118	<u>\$ 34,368</u>	<u>\$ -814,188</u>
FUND BALANCE - BEGINNING OF YEAR		<u>107,469</u>		
FUND BALANCE - END OF YEAR		<u>\$ 41,351</u>		

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2007

ASSETS

Cash and Investments	\$ 238,554
Accounts Receivable	---
Due From Other Funds	---
TOTAL ASSETS	<u>\$ 238,554</u>

LIABILITIES

Due to Other Funds	\$ ---
Due to Student Groups	238,554
TOTAL LIABILITIES	<u>\$ 238,554</u>

HANOVER - HORTON SCHOOL DISTRICT

Agency Funds

SUMMARY STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2007

	Balance 6/30/06	Receipts	Disbursements	Balance 6/30/07
ASSETS				
Cash and Investments	\$ 244,562	\$ 326,628	\$ 332,636	\$ 238,554
Accounts Receivable	---	---	---	---
Due From Other Funds	---	---	---	---
TOTAL ASSETS	\$ 244,562	\$ 326,628	\$ 332,636	\$ 238,554
LIABILITIES				
Due to Other Funds	\$ ---	\$ ---	\$ ---	\$ ---
Due to Student Groups	244,562	326,628	332,636	238,554
TOTAL LIABILITIES	\$ 244,562	\$ 326,628	\$ 332,636	\$ 238,554

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2007

ACTIVITY	Due to Student Groups 6/30/06	Receipts	Disbursements	Due to Student Groups 6/30/07
Academic Boosters	\$ 1,219	\$ 1,000	\$ 2,045	\$ 174
Academic Service Learning	1,674	2,200	1,225	2,649
After Prom party	821	---	---	821
Alumni Account	9,294	46	6	9,334
Athletic JAVA	174	---	---	174
Athletic Tournaments	3,927	29,632	36,749	-3,190
Athletic Vending	3,816	8,016	6,753	5,079
Band Account	92	1,684	1,771	5
Band Fundraising	1,357	5,985	6,420	922
Band Travels	---	2,585	1,865	720
Benevolence	15	---	---	15
Calendar Sales	1,536	1,280	788	2,028
Cheerleaders	753	4,744	5,134	363
Choir	487	908	1,061	334
Citizens for Education	---	500	383	117
Class of 2006	2,601	---	540	2,061
2007	7,964	2,846	5,731	5,079
2008	4,725	13,883	11,568	7,040
2009	3,278	4,627	1,399	6,506
2010	---	6,433	4,265	2,168
Competitive Grant (JCF)	180	---	---	180
Counseling	100	---	---	100
Drama Club	3,484	1,969	1,540	3,913
Drop-In Computer Lab	308	262	46	524
Earnings on Investments	8,004	11,888	5,804	14,088
Educational Fund Grants	109	2,897	2,762	244
Elementary	16,901	11,842	12,108	16,635
Elementary Classroom	535	---	---	535
Elementary Field Trips	5,603	4,880	3,150	7,333
Elementary Girls Basketball	6,578	18,129	16,790	7,917
Elementary Lighthouse Project	---	633	---	633
Elementary Pop Fund	4,730	1,447	470	5,707
Elementary Staff Retirement	226	---	---	226
Elementary Student Council	3,580	9,530	9,846	3,264
Entrepreneurial	---	30	---	30
H-H Concessions	5,824	30	390	5,464
H-H Renaissance Account	3,251	900	2,705	1,446
H-H Music Boosters	2,223	16,708	13,023	5,908

HANOVER - HORTON SCHOOL DISTRICT

Agency Funds

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES INTERNAL ACTIVITIES FUND

FISCAL YEAR ENDED JUNE 30, 2007

ACTIVITY	Due to Student Groups 6/30/06	Receipts	Disbursements	Due to Student Groups 6/30/07
HS ARC Youth Club	450	4,797	2,497	2,750
HS Art	966	---	957	9
HS Baseball	18	2,425	2,206	237
HS Baton	19	---	---	19
HS Bottle Refund	952	851	530	1,273
HS Business Manage Class	1,066	7,020	7,402	684
HS Cross Country	826	2,816	3,782	-140
HS English Dept	500	---	---	500
HS Football	385	3,665	3,829	221
HS French Club	176	15,600	7,054	8,722
HS Human Relations	2,956	1,270	1,647	2,579
HS Journalism	1,762	875	715	1,922
HS Miscellaneous	3,473	3,252	3,826	2,899
HS National Honor Society	1,048	2,369	2,584	833
HS Portfolio Supplies	590	---	---	590
HS Tech Lab	662	124	611	175
HS Ski Club	---	---	---	---
HS Softball	86	---	---	86
HS Spanish Club	236	888	488	636
HS Student Council	10,675	4,308	6,556	8,427
HS Teacher's Lounge	974	683	1,221	436
HS Track	44	2,267	1,587	724
HS Web Site Develop	230	---	---	230
HS Weight Room	---	---	---	---
HS Wrestling	6	---	---	6
HS Yearbook	2,642	4,852	4,628	2,866
Independent Living	160	50	443	-233
JCF Youth Mini Grant	73	---	---	73
Junior Pro Boys Basketball	1,170	4,258	4,730	698
Kids Club	7,428	---	2,095	5,333
Ladd Scholarship	97	---	---	97
Library Fund	3,920	15,123	15,686	3,357
Loss and Damage	10,634	3,980	2,617	11,997
6 th Grade Basketball Program	1,272	2,050	2,713	609
Maintenance Rewards and Recognition	380	50	---	430
M. Bytnar Memorial Fund	382	---	---	382

ACTIVITY	Due to Student Groups 6/30/06	Receipts	Disbursements	Due to Student Groups 6/30/07
MS Activity	8,381	25,619	23,583	10,417
MS Art Fund	49	---	---	49
MS Class of 2012	---	499	---	499
MS Cheerleading	831	2,288	2,784	335
MS Choir	3,701	4,000	3,020	4,681
MS Lego Club	180	---	---	180
MS Miscellaneous	2,661	2,146	3,063	1,744
MS Pop Machine	5,424	3,105	2,062	6,467
MS Popcorn Repair Fund	423	---	---	423
MS Rewards	1,611	2,100	2,985	726
MS Running Club	64	1,928	1,994	-2
MS Skills Class	179	---	---	179
MS Student Council	5,943	1,487	5,087	2,343
MS Weight Training	753	---	---	753
MS Yearbook	1,008	2,302	2,413	897
McGee Scholarship L.E.	2,104	2,000	2,000	2,104
New Library	459	1,000	170	1,289
New Press Box	340	---	---	340
Night Lights	2,179	5,465	4,778	2,866
Destination Imagination	75	---	---	75
Pop Machine	2,802	6,432	6,538	2,696
PTA	7	89	89	7
RIOT Account	846	---	---	846
Robbie Curtis Charitable	1,004	---	---	1,004
Ruth Creps Scholarship	33,173	2,250	22,250	13,173
Soccer	2,201	9,661	11,142	720
Student Teacher Fund	390	690	---	1,080
Summer Lights	769	---	---	769
Supplies R Us	4,208	1,430	1,920	3,718
Volleyball Boosters	170	1,050	17	1,203
Wall of Fame	1,000	---	---	1,000
Total	\$ 244,562	\$ 326,628	\$ 332,636	\$ 238,554

STATEMENTS OF INDEBTEDNESS

Statements Of Indebtedness**BUS LOANS****YEAR ENDED JUNE 30, 2007****Balance Outstanding - June 30, 2007****\$ 40,869**

Balance payable as follows:

LOAN	YEAR	INTEREST RATE	PRINCIPAL	INTEREST	TOTAL
Comerica Bank 0010-9	2007-08	4.00%	\$ 10,869	\$ 435	\$ 11,304
Hillsdale County National Bank	2007-08	4.15%	14,695	1,245	15,940
	2008-09	4.15%	15,305	635	15,940
			30,000	1,880	31,880
			\$ 40,869	\$ 2,315	\$ 43,184

DURANT DEBT**Balance Outstanding - June 30, 2007****\$ 43,211**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2006 - 07	4.761%	\$ 2,057	\$ 5,345	\$ ---
2007 - 08	4.761%	1,804	5,600	---
2008 - 09	4.761%	1,537	5,867	7,404
2009 - 10	4.761%	1,257	6,147	7,404
2010 - 11	4.761%	965	6,439	22,210
2011 - 12	4.761%	657	6,746	7,403
2012 - 13	4.761%	336	7,067	7,403
		\$ 8,613	\$ 43,211	\$ 51,824

HANOVER-HORTON SCHOOL DISTRICT

Statements Of Indebtedness

1999 REFUNDING DEBT

YEAR ENDED JUNE 30, 2007

Balance Outstanding - June 30, 2007

\$ 5,880,000

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2007 - 08	4.10%	\$ 262,450	\$ 465,000	\$ 727,450
2008 - 09	4.15%	243,385	460,000	703,385
2009 - 10	4.20%	224,295	455,000	679,295
2010 - 11	4.30%	205,185	450,000	655,185
2011 - 12	4.35%	185,835	445,000	630,835
2012 - 13	4.40%	166,477	440,000	606,477
2013 - 14	4.50%	147,118	465,000	612,118
2014 - 15	4.55%	126,193	460,000	586,193
2015 - 16	4.60%	105,262	455,000	560,262
2016 - 17	4.65%	84,333	450,000	534,333
2017 - 18	4.70%	63,407	450,000	513,407
2018 - 19	4.75%	42,258	445,000	487,258
2019 - 20	4.80%	21,120	440,000	461,120
		<u>\$ 1,877,318</u>	<u>\$ 5,880,000</u>	<u>\$ 7,757,318</u>

2002 DEBT**YEAR ENDED JUNE 30, 2007****Balance Outstanding - June 30, 2007****\$ 1,755,000**

Balance payable as follows:

Year	Rate	Interest	Principal	Total
2007 - 08	3.50%	\$ 74,230	\$ 75,000	\$ 149,230
2008 - 09	3.65%	71,605	125,000	196,605
2009 - 10	3.85%	67,043	155,000	222,043
2010 - 11	4.00%	61,075	175,000	236,075
2011 - 12	4.10%	54,075	175,000	229,075
2012 - 13	4.25%	46,900	---	46,900
2013 - 14	4.25%	46,900	350,000	396,900
2014 - 15	4.50%	32,025	---	32,025
2015 - 16	4.50%	32,025	350,000	382,025
2016 - 17	4.65%	16,275	---	16,275
2017 - 18	4.65%	16,275	350,000	366,275
		<u>\$ 518,428</u>	<u>\$ 1,755,000</u>	<u>\$ 2,273,428</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District, as of and for the year ended June 30, 2007, which collectively comprise the Hanover-Horton School District's basic financial statements and have issued our report thereon dated September 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hanover-Horton School District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Audit Adjustments

As part of the audit process, adjusting entries were recommended to management and consequently made to adjust various general ledger balances as of June 30, 2007. These journal entries were necessary in order for the financial statements to be materially correct.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hanover-Horton School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain matters that we reported to management of the Hanover-Horton School District in a separate letter dated September 24, 2007.

This report is intended solely for the information and use of management, the Board of Education, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, PC
Certified Public Accountant

September 24, 2007

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road

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September 24, 2007

Board of Education
Hanover-Horton School District
Horton, Michigan 49246

We have audited the financial statements of Hanover-Horton School District for the year ended June 30, 2007, and have issued our report thereon dated September 24, 2007. In planning and performing our audit of the financial statements, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control structure.

The management of Hanover-Horton School District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded in accordance with United States generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the school's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Therefore, we have prepared the following comments and recommendations to communicate the results of our testing and observations, and to make suggestions to improve upon the existing internal control structure.

Financial Overview

The General Fund finished the year with a fund balance of \$1,609,286. This is a decrease of \$155,855 from the prior year balance. This represents a 20% decrease in General Fund fund balance over the last two years. The Cafeteria Fund ended with a fund balance of \$104,646, which is an increase of \$10,257 over the prior year balance. The fund balance in the debt retirement accounts decreased by \$10,020 to \$129,087. The capital projects fund ended the year with a fund balance of \$41,351.

The District continues to be in a stable financial position. The State of Michigan has not yet finalized its budget for the next fiscal year, so the status of funding is very much in question. It is important to dramatically limit planned expenditures in the General Fund until the state funding is known.

Future Challenges

The District faces continuing challenges in maintaining its financial stability. Health care costs have been increasing by over 10% per year for several years. This year's cost will be stable, but cost increases are expected to continue. Also, the mandatory contribution for retirement is increasing. The rate for this past year was 16.34%. The current year has an increase to approximately 17.74%. Future years will continue to increase until the retirement fund is stable. At September 30, 2005, the retirement system had an unfunded actuarial accrued liability of \$10 billion, so it will take a major restructuring of the system to bring stability. Many Districts are facing considerable budget and program cuts to maintain financial solvency. Hanover-Horton Schools are in good enough financial position to withstand these increases in the short-term. Maintaining a balanced budget will be a challenge but is important to maintain long-term financial stability.

The above comments are intended for the use of the Board of Education and management of the Hanover-Horton School District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,

A handwritten signature in cursive script, reading "Karl L. Drake".

Karl L. Drake, CPA